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National Association of Purchasing Management

Report On Business®

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Price Growth Fastest Since April 1980

Employment Growth Rate Highest Since July 1984

Deliveries Continue Slowing

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

December Report

The economy grew in December at a much brisker pace than in November, say the nation's purchasing managers in their latest **Report on Business.**

The rate of growth in new orders and production was significantly higher, as both registered the 12th consecutive month of expansion. Another month of slowing vendor deliveries also confirmed the robust growth, with numerous shortages in metals and plastics.

Inventories declined at about the same rate as in November. Employment was exceptionally strong, growing for the ninth time in the last 10 months. Purchasers reported more price increases than decreases for the 16th consecutive month.

The report was issued today by Robert J. Bretz, C.P.M., chair of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. "The economy resumed its vigorous rate of growth in December, absorbing the recent stock market decline with no apparent ill effect," Bretz said. "Virtually all indicators remain positive, with no buildup of inventories. The end-of-the-year position of new orders is the strongest since December 1983 and signals a robust beginning for 1988."

The **Purchasing Managers' Composite Index** recovered almost everything it lost last month, increasing to 61.6% in December, up from 58.9% in November. The 61.6% in December was the second highest in 1987, the highest being October's 61.8%. December was the 17th consecutive month this leading economic indicator exceeded 50%. Noted Bretz: "The Purchasing Index averaged 57.6% for 1987. Based on past experience this is consistent with real GNP growth of about 4.1% for 1987 and fulfills the purchasing managers' forecasts of a better economy in 1987 than in 1986."

A reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment expanded in December, marking the ninth time in the past 10 months that it has grown. The number of members reporting lower employment in December (9%) is the fewest since July 1984 (8%).

Employment	% Higher	% Same	% Lower	Net
December	16	75	9	+7
November	15	72	13	+2
October	19	69	12	+7

Buying Policy

Lead times for production materials continued to lengthen in December, with 26% of members reporting lead times of 90 days or more, up from 25% in November and 18% as recently as August. This is undoubtedly a reflection of the slowing in vendor deliveries and shortages in many commodities. Lead times for capital expenditures were virtually unchanged, with only slight lengthening for commodities with normally short lead times.

Lead times for maintenance, repair and operating (MRO) supplies lengthened again as the number of members reporting lead times of 30 days or fewer decreased to 83%, down from 86% last month and 87% in October.

	Percent Reporting				
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
December	14	37	23	19	7
November	18	32	25	20	5
October	18	34	25	14	9
MRO Supplies					
December	33	50	12	3	2
November	38	48	10	3	1
October	42	45	9	3	1
Capital Expenditures					
December	8	8	11	19	54
November	11	8	10	17	54
October	8	7	13	17	55

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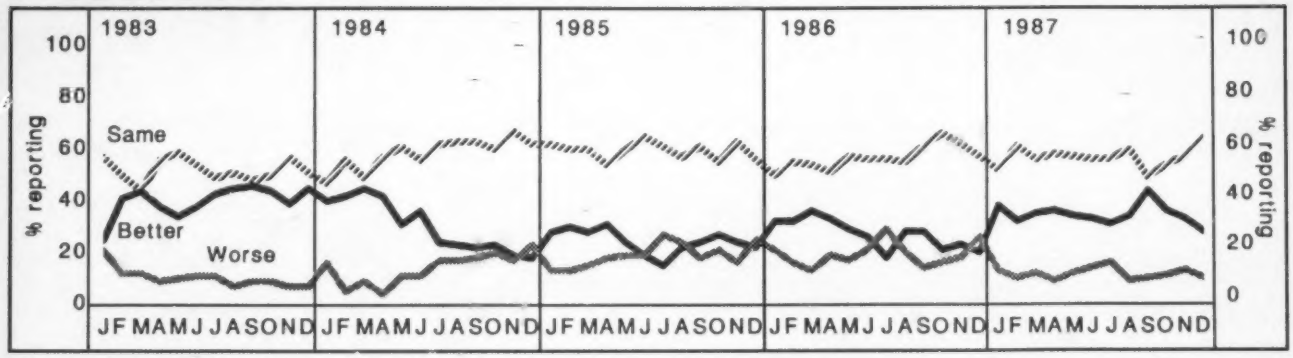
Production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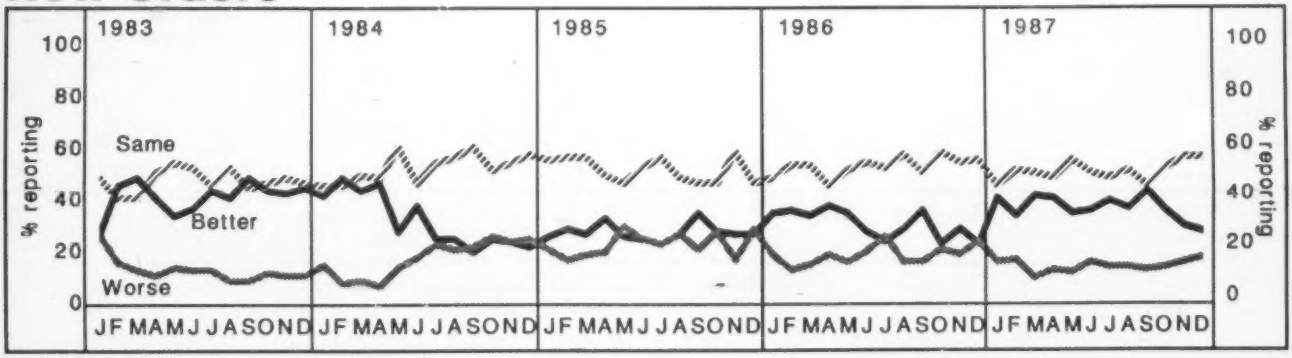
Production expanded again in December, the 12th consecutive month of growth. Considering normally expected seasonal slowing, the growth in production was exceptionally vigorous; this was the strongest December since 1983.

Production	% Better	% Same	% Worse	Net
December	27	64	9	+18
November	32	56	12	+20
October	35	55	10	+25

New Orders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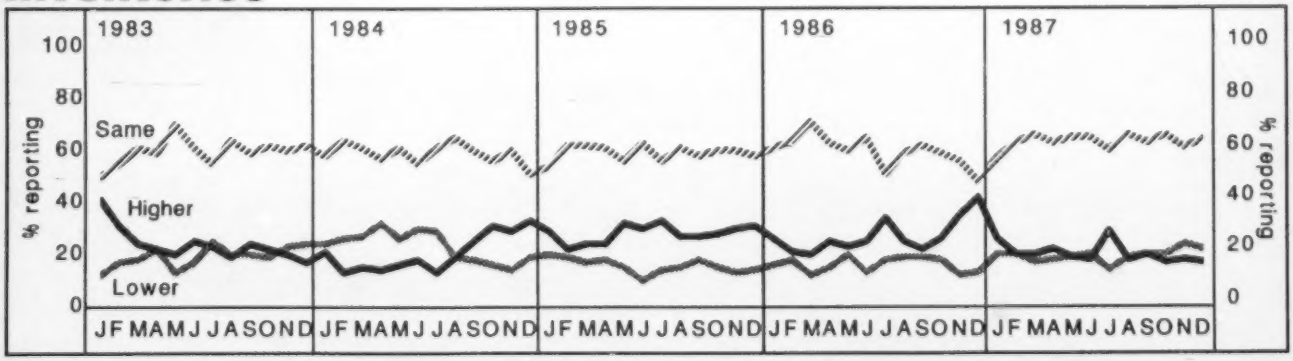
December was the 12th consecutive month of growth in new orders. The rate of growth is significant, considering normal seasonal slowing, and virtually assures vigorous growth in production to begin the new year.

New Orders	% Better	% Same	% Worse	Net
December	27	56	17	+10
November	29	56	15	+14
October	35	52	13	+22

Inventories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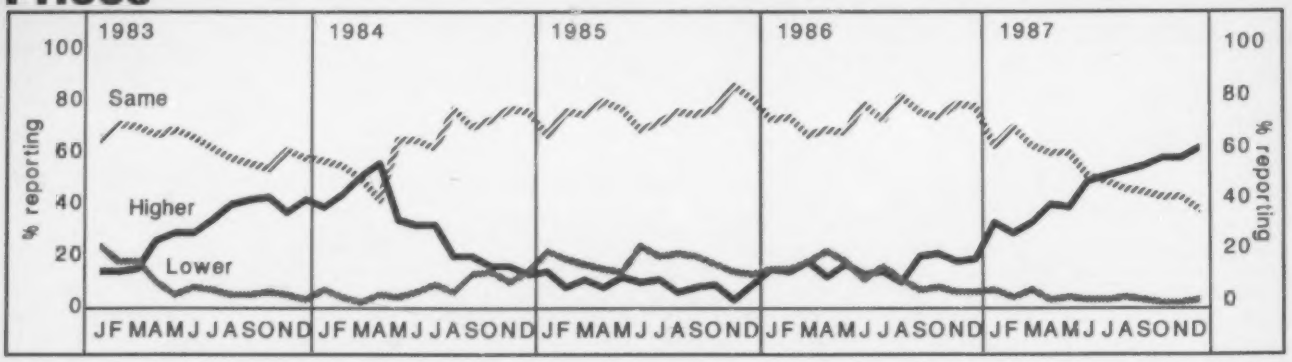
Inventories declined in December for the third consecutive month. This decline occurred in spite of some purchasers' efforts to build inventories of selected items in short supply.

Inventories	% Higher	% Same	% Lower	Net
December	16	63	21	−5
November	17	60	23	−6
October	16	65	19	−3

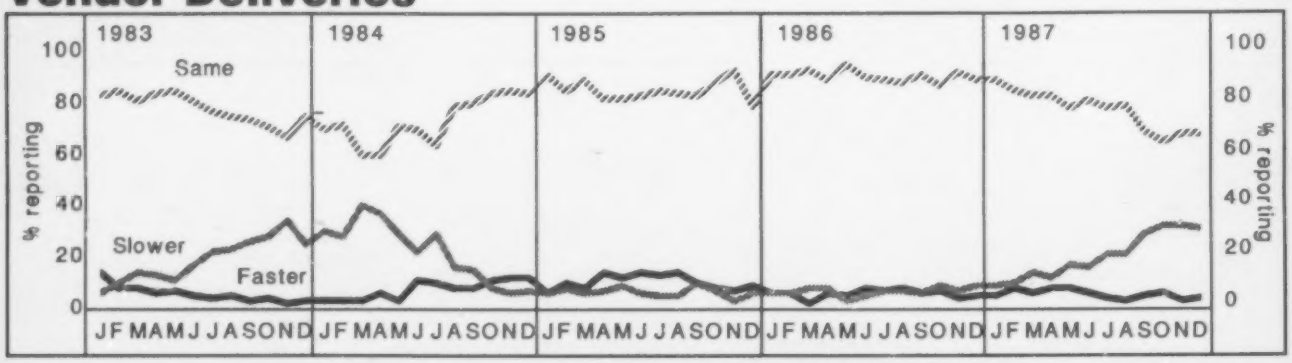
Prices



Prices continued to rise, with December marking the 16th consecutive month in which more purchasers reported price increases than decreases. The net difference (+59) between those reporting higher prices (61%) and lower (2%) was the same as in January 1981 and is the highest since April 1980 (+60). For the first time in four months, a commodity (fuel oil) was lower in price.

Prices	% Higher	% Same	% Lower	Net
December	61	37	2	+59
November	57	42	1	+56
October	57	42	1	+56

Vendor Deliveries



December is the 15th consecutive month in which more purchasing managers reported slower rather than faster deliveries. The net difference (−27) between those reporting slower deliveries (30%) and faster (3%) is the second-highest since April 1984 (−31) and was exceeded only by November 1987 (−29).

Vendor Deliveries	% Faster	% Same	% Slower	Net
December	3	67	30	−27
November	2	67	31	−29
October	5	64	31	−26

Specific Commodity Changes

Paper and related products reported higher in price in December were corrugated shipping containers (20th time in 21 months), printing paper (10th time in 12 months) and packing paper. Caustic soda was reported up in price for the 13th consecutive month.

Metal commodities reported up in price were steel (15th time in 16 months), steel scrap (second consecutive month), various steel products (second consecutive month), aluminum (11th consecutive month), copper (10th consecutive month), various copper products, brass (fifth time in last nine months) and castings (third consecutive month).

Petroleum-derived chemicals and plastic-related items higher in price included polyethylene (sixth time in seven months), ethylene (fourth time in five months), plastic resins (sixth time in seven months) and plastic products (seventh consecutive month). Natural gas was reported up in price for the second consecutive month. Fuel oil was reported lower in price, the first significant item down in price in four months.

Noted in short supply were aluminum (third consecutive month), copper, steel (ninth time in past 10 months), steel sheets (eighth consecutive month), wood pulp, caustic soda (seventh consecutive month), acetic acid, ethylene, polyethylene, plastic resins (second consecutive month), methanol (caused primarily by a plant fire) and titanium dioxide (fifth consecutive month).

UP IN PRICE: Corrugated shipping containers, printing paper, packaging paper, caustic soda (used heavily in paper-making and petroleum refining), aluminum, brass, copper and copper products, steel (particularly steel scrap), steel products, castings, polypropylene, ethylene (used heavily in making plastic resins), plastic resins, plastic products, methanol, natural gas and miscellaneous chemicals.

DOWN IN PRICE: Fuel oil.

IN SHORT SUPPLY: Aluminum (particularly ingot), copper, steel, hot- and cold-rolled steel sheets, wood pulp (used to produce paper), caustic soda, acetic acid, ethylene, polyethylene, plastic resins, methanol and titanium dioxide (a lead-free pigment used heavily as a whitener in coatings, paper and other industrial applications).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

The next issue of *Report on Business* will be available February 1, 1988.

Commodity Reports

Wood Products

Prepared by the N.A.P.M. Wood Products Committee. Chair: Sam Craven, Pope & Talbot, Inc., Portland, Oregon. Contributors: Roy Walters, Henredon Furniture, Morganton, North Carolina; K.A. Dean, Alcoa, Davenport, Iowa.

The wood products business as a whole has had an excellent year. Although mortgage rates have risen during the year, they are still in the affordable range for many people. It is very hard to forecast what they will do in the next six months, but we would guess they may hold steady or inch a little higher.

The falling dollar has made the lumber and chip export business better. However, on the west coast, competition from foreign countries for logs has had a significant effect on the cost of logs.

Look for prices on construction products (i.e., dimension and board lumber) to be a little soft for the next two to three months and then to firm up going into summer.

The furniture market also has had a good year and all expectations are that this should continue for some time. Prices on hardwoods and veneers are firm and may rise more in the next few months.

For the industry as whole, 1987 was an excellent year. Although 1988 may not be as good, it should be a solid year for our industry.

Non-Ferrous Metals

Prepared by the N.A.P.M. Non-Ferrous Metals Committee. Chair: Sharon Sinke, C.P.M., C.L. Frost Company, Grand Rapids, Michigan.

Cadmium: In the third quarter of 1987, domestic production of cadmium metal was down slightly from the second quarter, but up approximately 30% over the third quarter of 1986. Domestic producer prices reached the $2.25-to-$2.30 range.

The slowdown in demand that usually takes place late in the fourth quarter has not set in this year. Supply is tight and prices remain firm, with merchant quotes still in the $3.00-to-$3.15 range and producers at $3.00.

The current cadmium shortage is due to increased demand from Japan for its battery industry; China is also now an importer; the East Europeans are using more; zinc production is down somewhat, so less cadmium is being produced; and some is going back to Europe where producers are supporting higher prices.

Looking at 1988, shortages and higher prices will probably continue at least through the first quarter. Some forecasts are even more bullish, stating that prices will go even higher and shortages will continue through 1988.

In spite of an inordinate number of regulatory actions against cadmium, its use continues to grow and prices remain at high levels, in part due to the growth of the NiCd battery industry. There is also a general reluctance to substitute other materials for cadmium inasmuch as industry recognizes the advantages of cadmium-containing products and continues its use. *(Bill Brandes, Kraft Chemical Company, Melrose Park, Illinois)*

Copper: Continuing strong demand worldwide, as well as in the U.S., and diminishing nearby supply have caused copper prices to increase to their highest level since 1980.

Total exchange stocks (L.M.E. and Comex) have dipped below 100,000 tons, their lowest level since 1974, and intermittent supply problems in Peru, Chile, Canada and elsewhere have contributed to the declining metal stocks and increased prices.

U.S. producers, including Kennecott, and their recent production start-up are sold out for the balance of the year, as are most dealer/merchants. High-grade cathode premiums have tripled, while Comex values have about doubled from January's $0.60/lb. level.

Near-term availability remains tight, and consumption remains strong in the near term. Predictions are for usage levels to begin moderating by mid-year, with annual consumption in 1988 slightly higher than in 1987. However, increased production, principally from U.S. sources, is expected to increase by about 5% or approximately 400,000 metric tons.

Unless the world economy picks up more strongly than is anticipated, pricing moderation is expected to occur in conjunction with increasing availability of copper stocks later in the year.

In the near intermediate term, copper consumers are well advised to secure an assured source of supply, but should be cautious about second-half pricing commitments based on today's levels. *(Frederick C. Burke, Rea Magnet Wire Company, Inc., Fort Wayne, Indiana)*

Lead: The price of lead has remained at $0.42/lb. since July. This strong price has held despite the arrival in this country of 50,000 lbs. of imported lead since August.

This overall strength has occurred because of reduced U.S. production at both primary and secondary smelters. U.S. lead inventory levels have dropped 22,000 tons since January; London Metal Exchange stocks declined 23,000 metric tons over the same period.

North American production has begun to increase, as Cominco has settled a five-month strike; U.S. secondary smelters continue to increase production levels. This increased production, coupled with an expected decrease in demand caused by the seasonality of the battery industry, should cause the price to drop to the $0.33-to-$0.35/lb. range by February. I expect supply and demand to remain in balance, resulting in a stable price. *(Thomas A. Parker, Exide Corporation, Reading, Pennsylvania)*

Zinc: From the producer's viewpoint, the 1987 zinc market has followed the U.S. economy and performed favorably. The major market factors supporting a more balanced market have been a mid-year labor strike followed by a three-month production cutback at Cominco; zinc metal production problems; record consumptions by the steel industry; and unanticipated demand from the Chinese. Annual metal consumption is estimated to be 5 million metric tons, up 2% from 1986. The availability of cheaper metal imported from an oversupplied European market has served to keep prices reasonable, ranging from a low of $0.38/lb. during the first quarter to $0.455/lb. in July before leveling to $0.42/lb. in September.

Because no major producers face labor contract negotiations in 1988, prices should be relatively flat throughout the year. Further, the zinc market stability will likely diminish in 1988 when, as predicted by many economists, general economic conditions slip. Average prices, therefore, should be slightly below 1987 levels. *(Victoria P. Radick, National Steel Corporation, Pittsburgh, Pennsylvania)*